

CITY OF COVINGTON, LOUISIANA

Annual Financial Statements

For the Year Ended December 31, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/3/11

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Independent Auditor's Report

To The Honorable Candace Watkins, Mayor
and Members of the City Council
City of Covington, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Louisiana, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information presented for the City's proprietary fund has been derived from the City's 2009 financial statements and, in our report dated June 11, 2010, we expressed an unqualified opinion on the respective financial statements of the proprietary fund of the City as of and for the year ended December 31, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, beginning on page 4, and the budgetary comparison schedules beginning on page 55 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



A Professional Accounting Corporation

June 16, 2011

**REQUIRED SUPPLEMENTAL INFORMATION - (PART I)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CITY OF COVINGTON, LOUISIANA

Management's Discussion and Analysis For the Year Ended December 31, 2010

Our discussion and analysis of the City of Covington's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ending December 31, 2010. Please review in conjunction with the transmittal letter and the City's financial statements.

Reviewing the Annual Report

The annual report covers multiple financial statements. The Statement of Net Assets and the Statement of Activities supply data about the activities of the City as a whole and provide information regarding the City's finances. For government activities, these statements provide long-term and short-term information about the City's overall status. Financial reporting is similar to that found in the private sector with its basis in full accrual accounting. Fund financial statements show City operations in more detail than government-wide statements, as they provide information about the City's most important funds.

Financial Highlights

Due to this year's operations, the City's net assets are as follows: Net assets of business-type activities were \$23,551.8 thousand and net assets of governmental activities were \$16,064.2 thousand.

- The current year's expense total was \$12,807.9 thousand as compared to the \$13,703.1 thousand generated in fees and charges, grants, general revenues, and taxes for governmental programs (before special items). In the previous year, expenses were \$12,537.8 thousand as compared to the \$14,796.3 thousand generated in tax and other revenues for governmental programs (before special items).
- For business-type activities, City revenues were \$3,189.9 thousand. Expenses were \$3,931.3 thousand.
- The annual cost of all City programs was \$16,739.2 thousand. The previous year's cost was \$16,337.9 thousand.

The City as a Whole Analysis

Because the Statement of Net Assets and the Statement of Activities provide facts about the City as a whole, the statements can help determine if the City's financial condition has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the City's net assets and any changes in those assets. However, to truly judge the condition of the City, some non-financial factors, such as diversification of the taxpayer base or the condition of the City's infrastructure, must be considered in addition to the financial information provided in this report.

CITY OF COVINGTON, LOUISIANA

Management's Discussion and Analysis For the Year Ended December 31, 2010

The Statement of Net Assets and the Statement of Activities divide the City into two types of activities:

Governmental Activities

The City's basic services are accounted for in this section, including the police, fire, public works, parks departments and general administration. Sales tax, property taxes, franchise fees, and state and federal grants finance the majority of these activities.

Business-Type Activities

These activities generally report services for which the City charges customers a fee. Services are provided to customers external to the City organization, such as water utilities.

Detailing the Most Important Funds

The fund financial statements provide detailed information about the most important funds of the City. Certain funds are mandated by State law and by bond agreements. Other funds are established to manage money, meet legal requirements or for certain taxes or grants.

Governmental Funds

Basic services are reported in governmental funds. Governmental fund financial statements detail how money flows in and out of the funds and reports the balances left at year-end that are on hand for disbursement. Governmental funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund accountability focuses on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the next term.

Budgetary comparison schedules are included as required supplementary information to the basic financial statements for the general fund and major special revenue funds. These schedules demonstrate compliance within the City's adopted and final revised budget.

Proprietary Funds

Proprietary funds are funds that the City charges for services it provides, both to City units and outside customers. Proprietary funds are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. The City's enterprise fund is the same as the business-type activities we report in the government-wide statements, but they give more detailed information such as cash flows.

CITY OF COVINGTON, LOUISIANA

**Management's Discussion and Analysis
For the Year Ended December 31, 2010**

Notes to Financial Statements

The notes provide additional information that is necessary for a full understanding of the data provided in the accompanying financial statements.

Other Information

In addition to the financial statements and notes, this report contains supplementary information and details of the accompanying financial statements.

Table 1
Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Current and Other Assets	\$ 12,970.3	\$ 13,283.5	\$ 917.2	\$ 838.5	\$ 13,887.5	\$ 14,122.0
Capital Assets, Net	18,339.5	17,417.4	22,965.0	22,558.1	41,304.5	39,975.5
Total Assets	31,309.8	30,700.9	23,882.2	23,396.6	55,192.0	54,097.5
Long-Term Liabilities	12,731.9	12,931.4	-	-	12,731.9	12,931.4
Other Liabilities	2,513.7	1,444.7	330.4	299.1	2,844.1	1,743.8
Total Liabilities	15,245.6	14,376.1	330.4	299.1	15,576.0	14,675.2
Net Assets						
Invested in Capital Assets, Net of Related Debt	9,003.7	7,999.7	22,965.0	22,558.1	31,968.7	30,557.8
Restricted	4,407.3	4,082.7	-	-	4,407.3	4,082.7
Unrestricted	2,653.2	4,242.4	586.8	539.4	3,240.0	4,781.8
Total Net Assets	\$ 16,064.2	\$ 16,324.8	\$ 23,551.8	\$ 23,097.5	\$ 39,616.0	\$ 39,422.3

City as a Whole

The City's combined net assets from the previous year were \$39,422.3 thousand as compared to \$39,616.0 thousand this year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the net assets and Table 2 focuses on changes in the net assets of the City's governmental and business-type activities.

The City's net assets for governmental activities were \$16,064.2 thousand this year as compared to \$16,324.8 thousand last year. Unrestricted net assets were \$4,242.4 thousand last year as compared to \$2,653.2 thousand this year. Unrestricted net assets are those that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net assets of the City's business-type activities were \$23,551.8 thousand this year as compared to \$23,097.5 thousand last year.

CITY OF COVINGTON, LOUISIANA

**Management's Discussion and Analysis
For the Year Ended December 31, 2010**

City revenues (excluding special items) for the current year were \$16,893.0 thousand as compared to \$17,812.3 thousand in the previous year. The total yearly cost of all programs and services was \$16,739.2 thousand as compared to \$16,337.8 thousand in the previous year.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Revenues						
Program Revenues						
Charges for Services	\$ 174.0	\$ 165.9	\$ 3,189.9	\$ 3,015.7	\$ 3,363.9	\$ 3,181.6
Restricted Operating Grants	343.1	227.0	-	-	343.1	227.0
Restricted Capital Grants	111.5	811.1	-	-	111.5	811.1
General Revenues						
Property Taxes	2,337.2	2,466.4	-	-	2,337.2	2,466.4
Sales Taxes	8,329.5	8,524.0	-	-	8,329.5	8,524.0
Other Taxes	663.2	644.8	-	-	663.2	644.8
Interest and Investment Income	70.9	104.9	-	0.3	70.9	105.2
Other General Revenues	1,673.6	1,852.2	-	-	1,673.6	1,852.2
Total Revenues	13,703.1	14,796.3	3,189.9	3,016.0	16,893.0	17,812.3
Program Expenses						
General Government	3,994.2	3,543.5	-	-	3,994.2	3,543.5
Public Safety	5,785.0	5,532.2	-	-	5,785.0	5,532.2
Public Works	1,730.6	1,906.0	-	-	1,730.6	1,906.0
Culture and Recreation	829.1	996.3	-	-	829.1	996.3
Interest on Long-Term Debt	469.1	559.8	-	2.2	469.1	562.0
Water and Sewer	-	-	3,176.3	3,049.9	3,176.3	3,049.9
Other Utilities	-	-	755.0	747.9	755.0	747.9
Total Expenses	12,807.9	12,537.8	3,931.3	3,800.0	16,739.2	16,337.8
Excess (Deficit) Before Special Items and Transfers						
	895.2	2,258.5	(741.4)	(784.0)	153.8	1,474.5
Capital Contributions	(1,195.6)	(87.5)	1,195.6	87.5	-	-
Special Items	39.8	(3.4)	-	-	39.8	(3.4)
Transfers	-	(442.2)	-	442.2	-	-
Change in Net Assets	\$ (260.6)	\$ 1,725.4	\$ 454.3	\$ (254.3)	\$ 193.6	\$ 1,471.1

Governmental Activities

This year's governmental activities revenues were \$13,703.1 thousand as compared to \$14,796.3 thousand last year. This year's governmental activities cost was \$12,807.9 thousand as compared to \$12,537.8 thousand in the previous year.

CITY OF COVINGTON, LOUISIANA

**Management's Discussion and Analysis
For the Year Ended December 31, 2010**

Table 3 details the cost of the City's major programs as well as each program's net cost (total cost less revenues generated by the program). The net cost indicates the financial burden that was shifted to the City's taxpayers by each of these programs.

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services		Net Cost of Services	
	Current Year	Previous Year	Current Year	Previous Year
Police Department	\$ 4,182.0	\$ 4,070.7	\$ 4,145.9	\$ 4,036.3
Fire Department	1,603.0	1,461.5	1,553.6	1,413.8
Public Works	1,730.6	1,906.0	1,677.3	1,899.3
Parks and Recreation	829.1	996.3	665.9	837.2
All Others	4,463.3	4,103.3	4,136.4	3,147.2
Totals	\$ 12,807.9	\$ 12,537.8	\$ 12,179.2	\$ 11,333.8

Business-Type Activities

This year's business-type activities revenues (see Table 2) were \$3,189.9 thousand as compared to \$3,016.0 thousand last year. This year's expenses were \$3,931.3 thousand as compared to \$3,800.0 thousand in the previous year

General Fund Budgetary Statements

The City Council revisits the budget several times during the year. The current year's budgets focus on general funds, major funds and on availability of fund resources.

City Funds

At year end the City reported a government funds balance of \$11,467.5 thousand as compared to \$12,838.2 thousand in the previous year.

CITY OF COVINGTON, LOUISIANA

**Management's Discussion and Analysis
For the Year Ended December 31, 2010**

Capital Assets

Table 4
Capital Assets at Year-End
(Net of Depreciation, In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Land	\$ 580.1	\$ 557.6	\$ -	\$ -	\$ 580.1	\$ 557.6
Buildings and Improvements	10,100.1	10,121.3	3,384.7	3,497.3	13,484.8	13,618.6
Equipment	1,058.2	1,006.7	1,112.6	772.9	2,170.8	1,779.6
Infrastructure	4,274.5	4,484.6	18,251.0	18,015.8	22,525.5	22,500.4
Other	2,326.6	1,247.2	216.7	272.1	2,543.3	1,519.3
Total	\$ 18,339.5	\$ 17,417.4	\$ 22,965.0	\$ 22,558.1	\$ 41,304.5	\$ 39,975.5

At the close of the year, the City had invested \$41,304.5 thousand in capital assets such as land, buildings and improvements, equipment or infrastructure (see Table 4). \$39,975.5 thousand was invested in similar assets last year.

The current year's chief capital asset additions included:

Governmental Activities: Capital asset additions included 11 vehicles, a Durapatcher, fire training equipment, playground equipment, a backhoe/loader, a tractor, a 60" forestry cutter and property on Phillip Drive.

Business-Type Activities: Capital asset additions included various pumps, improvements to its lift station, a pipe-hunter, an excavator and bucket, and two new vehicles.

Debt Management

At the close of the year, the City had \$11,165.9 thousand in outstanding bonds and notes as compared to \$11,680.9 thousand in the previous year (see Table 5). This decrease in debt of \$515.0 thousand is due to normal debt retirement.

CITY OF COVINGTON, LOUISIANA

**Management's Discussion and Analysis
For the Year Ended December 31, 2010**

Table 5
Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
General Obligation Bonds (Backed by the City)	\$ 6,360.0	\$ 6,675.0	\$ -	\$ -	\$ 6,360.0	\$ 6,675.0
Revenue Bonds and Notes (Backed by Specific Tax and Fee Revenues)	3,005.0	3,205.0	-	-	3,005.0	3,205.0
Federal Community Disaster Loan	1,800.9	1,800.9	-	-	1,800.9	1,800.9
Total	\$ 11,165.9	\$ 11,680.9	\$ -	\$ -	\$ 11,165.9	\$ 11,680.9

Economic Issues/Upcoming Yearly Budgets

City public officials considered many issues when establishing the upcoming year's budget, tax rates, and fees.

Over 46% of the City's operating revenues are derived from sales taxes. While the City experienced a significant increase in sales tax revenue in 2006 due to the anomaly of sales generated as a result of the recovery from Hurricane Katrina, sales tax revenues have been declining since 2008. It is estimated that the city will collect approximately \$8,800,000 in sales tax revenues for fiscal year 2010, which is a 9.2% decline over the previous 12 months, based on the current revenues collected through July. We are projecting \$8,300,000 in sales tax collections for 2011, down 6% from 2010. Approximately \$5,170,000 will go directly to the General Fund, \$1,900,000 is dedicated to the Capital Improvements Fund and the \$1,230,000 balance is "shared revenue" provided by St. Tammany Parish through the City/Parish Growth Management Agreement. The shared revenue is dedicated to the construction and maintenance of roads, bridges and drainage projects in St. Tammany Sales Tax District 3 or where they benefit the residents of St. Tammany Parish Sales Tax District 3.

Ad valorem tax is anticipated to generate just over \$1,880,000 in revenue for the General Fund. This is an increase of approximately 3% over 2010 and is based upon an assessed valuation of \$105,000,000. The City has not yet received an official assessment figure from the Tax Assessor as of the publication of this budget. It should be noted that property taxes represent 16 % of the 2011 Operating Budget. The City of Covington currently has the following ad valorem tax assessments: 23.04 mills comprised of 5.55 mills for retiring general obligation bonds, 7.54 mills to general fund revenues, and 10.00 mills for operation and maintenance of the Fire Department.

CITY OF COVINGTON, LOUISIANA

Management's Discussion and Analysis For the Year Ended December 31, 2010

The City continues to subsidize its Enterprise (Utility) Fund at a high level, projected to reach \$255,660 in 2011. A consultant has been hired to evaluate the City's current rate structure in order to address the deficit in the operation of the City's water and sewer services as noted in our 2009 Audit Management Letter. User fees must be adjusted to bring this fund to the break-even point. It is irresponsible to subsidize this fund with other tax revenues and, therefore, the City must charge for the cost of providing the service.

Contact Information

This report has been created to give our citizens, taxpayers, customers, investors and creditors a summary of City finances and to show how its revenues are used. If you have any questions regarding this report, or if you need additional financial information, please contact:

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**BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF COVINGTON, LOUISIANA
Statement of Net Assets
December 31, 2010

Statement A

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 5,879,830	\$ 714,627	\$ 6,594,457
Investments	3,991,777	-	3,991,777
Certificates of Deposit	387,528	-	387,528
Receivables, Net	2,711,129	202,607	2,913,736
Capital Assets, Net	18,339,483	22,965,009	41,304,492
Total Assets	31,309,747	23,882,243	55,191,990
Liabilities			
Accounts Payable	415,485	57,259	472,744
Accrued Payroll Expenses	175,911	32,759	208,670
Customer Deposits	-	259,262	259,262
Accrued Interest	301,026	-	301,026
Deferred Revenues	151,501	-	151,501
Compensated Absences	887,147	-	887,147
Internal Balances	18,849	(18,849)	-
Deficit in Pooled Cash	741,011	-	741,011
Contingent Liabilities			
Due Within One Year	230,000	-	230,000
Due in More Than One Year	210,000	-	210,000
Revenue Bonds Payable			
Due Within One Year	210,000	-	210,000
Due in More Than One Year	2,795,000	-	2,795,000
General Obligations Bonds Payable			
Due Within One Year	270,000	-	270,000
Due in More Than One Year	6,090,000	-	6,090,000
Community Disaster Loan	1,800,900	-	1,800,900
Net Other Post-Employment Benefit Obligation	948,700	-	948,700
Total Liabilities	15,245,530	330,431	15,575,961
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,003,688	22,965,009	31,968,697
Restricted for:			
Debt Service	1,280,280	-	1,280,280
Perpetual Care	57,546	-	57,546
Capital Outlay	3,069,518	-	3,069,518
Unrestricted	2,653,185	586,803	3,239,988
Total Net Assets	\$ 16,064,217	\$ 23,551,812	\$ 39,616,029

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Statement of Activities
For the Year Ended December 31, 2010

Statement B

Functions / Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 3,994,184	\$ -	\$ 215,333	\$ 111,516	\$ (3,667,335)	\$ -	\$ (3,667,335)
Public Safety - Police	4,181,956	-	36,067	-	(4,145,889)	-	(4,145,889)
Public Safety - Fire	1,603,010	-	49,371	-	(1,553,639)	-	(1,553,639)
Public Works	1,730,586	10,909	42,376	-	(1,677,301)	-	(1,677,301)
Culture and Recreation	829,061	163,132	-	-	(665,929)	-	(665,929)
Interest on Long-Term Debt	469,112	-	-	-	(469,112)	-	(469,112)
Total Governmental Activities	12,807,909	174,041	343,147	111,516	(12,179,205)	-	(12,179,205)
Business-Type Activities							
Water	1,217,823	1,278,548	-	-	-	60,725	60,725
Sewer	1,958,438	1,148,835	-	-	-	(809,603)	(809,603)
Garbage	754,985	762,522	-	-	-	7,527	7,527
Total Business-Type Activities	3,931,256	3,189,905	-	-	-	(741,351)	(741,351)
Total	\$ 16,739,165	\$ 3,363,946	\$ 343,147	\$ 111,516	(12,179,205)	(741,351)	(12,920,556)
General Revenues							
Taxes							
Sales Taxes					8,329,498	-	8,329,498
Property Taxes					2,337,157	-	2,337,157
Franchise Taxes					663,240	-	663,240
Licenses and Permits					1,177,394	-	1,177,394
Other General Revenues					235,349	-	235,349
Fines and Forfeitures					260,855	-	260,855
Interest and Penalties					70,946	-	70,946
Special Item - Gain on Sale of Equipment					39,827	-	39,827
Capital Contributions					(1,195,646)	1,195,646	-
Total General Revenues, Special Items, Capital Contributions, and Transfers					11,918,618	1,195,646	13,114,264
Change in Net Assets					(260,587)	454,295	193,708
Net Assets, Beginning of Year					16,324,804	23,097,517	39,422,321
Net Assets, End of Year					\$ 16,064,217	\$ 23,551,812	\$ 39,616,029

The accompanying notes are an integral part of these financial statements.

**BASIC FINANCIAL STATEMENTS
FUND FINANCIAL STATEMENTS
GOVERNMENTAL FUNDS**

CITY OF COVINGTON, LOUISIANA
Balance Sheet
Governmental Funds
December 31, 2010

Statement C

	General Fund	Special Revenue Funds		Non-Major Governmental Funds	Total Governmental Funds
		1982 Sales Tax Fund	1957 Sales Tax Fund		
Assets					
Cash and Cash Equivalents	\$ -	3,259,393	\$ -	\$ 2,620,437	\$ 5,879,830
Investments	3,991,777	-	-	-	3,991,777
Certificates of Deposit	-	-	-	387,528	387,528
Receivables					
Taxes	1,989,416	-	-	469,191	2,458,607
Notes Receivable	70,700	-	-	-	70,700
Grant Receivable	47,207	-	-	-	47,207
Accrued Interest	-	-	-	674	674
Other	133,918	-	23	-	133,941
Due from Other Funds	450,584	20,000	-	-	470,584
Total Assets	\$ 6,683,602	\$ 3,279,393	\$ 23	\$ 3,477,830	\$ 13,440,848
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 175,586	\$ 239,130	\$ -	\$ 769	\$ 415,485
Accrued Payroll Expenses	175,911	-	-	-	175,911
Deficit in Pooled Cash	738,176	-	2,835	-	741,011
Due to Other Funds	-	-	-	489,433	489,433
Deferred Revenues	151,501	-	-	-	151,501
Total Liabilities	1,241,174	239,130	2,835	490,202	1,973,341
Fund Balances					
Reserved for Capital Outlay	-	3,040,263	-	29,255	3,069,518
Reserved for Debt Service	-	-	-	1,280,280	1,280,280
Reserved for Perpetual Care	-	-	-	57,546	57,546
Unreserved	5,442,428	-	(2,812)	1,620,547	7,060,163
Total Fund Balances	5,442,428	3,040,263	(2,812)	2,987,628	11,467,507
Total Liabilities and Fund Balances	\$ 6,683,602	\$ 3,279,393	\$ 23	\$ 3,477,830	\$ 13,440,848

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
December 31, 2010

Statement D

Fund Balances - Total Governmental Funds **\$ 11,467,507**

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the governmental funds..

Governmental Capital Assets	25,783,266
Less: Accumulated Depreciation	(7,443,783)

Long-term liabilities, including bonds payable, are not due and payable in the
current period and, therefore, are not reported in the governmental funds.

Accrued Interest on Bonds and Community Disaster Loan	(301,026)
Compensated Absences	(887,147)
Contingent Liabilities	(440,000)
Revenue Bonds	(3,005,000)
General Obligation Bonds	(6,360,000)
Community Disaster Loan	(1,800,900)
Net Other Post-Employment Benefit Obligation	<u>(948,700)</u>

Net Assets of Governmental Activities	<u>\$ 16,064,217</u>
--	-----------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

Statement E

	General Fund	Special Revenue Funds		Non-Major Governmental Funds	Total Governmental Funds
		1982 Sales Tax Fund	1957 Sales Tax Fund		
Revenues					
Taxes					
Sales Taxes	\$ -	\$ 3,494,556	\$ 3,494,556	\$ 1,340,384	\$ 8,329,496
Property Taxes	1,657,933	-	-	479,224	2,337,157
Franchise Taxes	663,240	-	-	-	663,240
Licenses and Permits	1,177,394	-	-	-	1,177,394
Disaster Grants	111,516	-	-	-	111,516
Other Revenues	235,349	-	-	-	235,349
Fines and Forfeitures	260,855	-	-	-	260,855
Charges for Services	174,041	-	-	-	174,041
Intergovernmental Revenues	160,538	-	-	-	160,538
Interest and Penalties	62,595	-	-	8,351	70,946
State Grants	182,609	-	-	-	182,609
Total Revenues	4,886,070	3,494,556	3,494,556	1,827,959	13,703,141
Expenditures					
Current					
General Government	3,161,747	184,756	-	1,703	3,348,206
Public Safety - Police	3,929,843	351,071	-	-	4,280,914
Public Safety - Fire	1,504,459	248,828	-	-	1,753,287
Public Works	1,509,689	416,742	-	830,750	2,757,181
Culture and Recreation	603,130	41,314	-	-	644,444
Capital Outlay - Utility	-	760,203	-	435,443	1,195,646
Debt Service					
Principal	-	-	-	515,000	515,000
Interest	-	-	-	422,507	422,507
Payments on Contingent Liabilities	-	-	-	200,000	200,000
Total Expenditures	10,708,868	2,002,914	-	2,405,403	15,117,185
Excess (Deficiency) of Revenues Over Expenditures	(5,822,798)	1,491,642	3,494,556	(577,444)	(1,414,044)
Other Financing Sources (Uses)					
Sale of Equipment	43,364	-	-	-	43,364
Transfers In	4,892,379	50,000	-	-	4,942,379
Transfers Out	(30,000)	(1,397,823)	(3,494,556)	(20,000)	(4,942,379)
Total Other Financing Sources (Uses)	4,905,743	(1,347,823)	(3,494,556)	(20,000)	43,364
Changes in Fund Balances	(917,055)	143,819	-	(597,444)	(1,370,680)
Fund Balances, Beginning of Year	9,195,738	60,189	(2,812)	3,585,072	12,838,187
Prior Period Adjustments	(2,836,255)	2,836,255	-	-	-
Fund Balances, Beginning of Year Restated	6,359,483	2,896,444	(2,812)	3,585,072	12,838,187
Fund Balances, End of Year	\$ 5,442,428	\$ 3,040,263	\$ (2,812)	\$ 2,987,628	\$ 11,467,507

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Government-Wide Statement of Activities
For the Year Ended December 31, 2010

Statement F

Changes in Fund Balances - Total Governmental Funds \$ (1,370,680)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives through depreciation expense. This is the amount by which capital outlay charged exceeded depreciation in the current period.	925,594
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	515,000
Payment of contingent liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	230,000
Losses on the disposal of capital assets reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(3,500)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in Accrued Interest	(46,614)
Change in Compensated Absences	(43,812)
Change in Net Other Post-Employment Benefit Obligation	<u>(466,575)</u>
Change in Net Assets of Governmental Activities	<u>\$ (260,587)</u>

The accompanying notes are an integral part of these financial statements.

**BASIC FINANCIAL STATEMENTS
FUND FINANCIAL STATEMENTS
PROPRIETARY FUND**

CITY OF COVINGTON, LOUISIANA
Statements of Net Assets
Proprietary Fund
December 31, 2010 and 2009

Statement G

	2010	2009
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 714,627	\$ 551,947
Receivables		
Accounts Receivable, Net of Uncollectible	202,607	267,255
Due from Other Funds	22,000	22,000
	<hr/>	<hr/>
Total Current Assets	939,234	841,202
	<hr/>	<hr/>
Capital Assets, Net	22,965,009	22,558,143
	<hr/>	<hr/>
Total Assets	23,904,243	23,399,345
	<hr/>	<hr/>
Liabilities		
Current Liabilities		
Accounts Payable	57,259	42,040
Accrued Payroll Expenses	32,759	20,770
Customer Deposits	259,262	236,297
Due to Other Funds	3,151	2,721
	<hr/>	<hr/>
Total Current Liabilities	352,431	301,828
	<hr/>	<hr/>
Net Assets		
Invested in Capital Assets, Net of Related Debt	22,965,009	22,558,143
Unrestricted Net Assets	586,803	539,374
	<hr/>	<hr/>
Total Net Assets	\$ 23,551,812	\$ 23,097,517
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Statements of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Years Ended December 31, 2010 and 2009

Statement H

	2010	2009
Operating Revenues		
Sewer Maintenance Fees	\$ 1,134,637	\$ 1,063,465
Water Revenues	1,067,950	1,000,590
Garbage Collection Fees	762,522	734,338
Miscellaneous	85,625	136,078
Connection Fees	53,594	32,322
Water Installations	71,329	29,490
DHH Fee	14,198	14,214
Sewer Installations	50	5,225
Total Operating Revenues	3,189,905	3,015,722
Operating Expenses		
Sewer Department Expenses	1,958,438	1,818,321
Water Department Expenses	1,217,823	1,231,623
Garbage Department Expenses	754,995	747,879
Total Operating Expenses	3,931,256	3,797,823
Operating Loss	(741,351)	(782,101)
Non-Operating Revenues (Expenses)		
Interest Income	-	318
Interest Expense	-	(2,243)
Total Non-Operating Expenses, Net	-	(1,925)
Loss Before Contributions and Transfers	(741,351)	(784,026)
Operating Transfers and Contributions		
Operating Transfers	-	442,184
Capital Contributions	1,195,646	87,471
Total Operating Transfers and Contributions	1,195,646	529,655
Changes in Net Assets	454,295	(254,371)
Net Assets, Beginning of Year	23,097,517	23,351,888
Net Assets, End of Year	\$ 23,551,812	\$ 23,097,517

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Statements of Cash Flows
Proprietary Fund
For the Years Ended December 31, 2010 and 2009

Statement I

	2010	2009
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 3,191,843	\$ 2,928,370
Other Receipts	85,675	141,303
Payments to Suppliers	(2,868,784)	(1,880,821)
Payments to Employees	11,989	(1,203,833)
Net Cash Provided by (Used in) Operating Activities	420,723	(14,981)
Cash Flows from Non-Capital Financing Activities		
Net Interfund Borrowings from Other Funds	430	1,423
Net Cash Provided by Non-Capital Financing Activities	430	1,423
Cash Flows from Capital and Related Financing Activities		
Transfers In	-	442,184
Purchase of Capital Assets	(1,454,119)	(529,087)
Capital Contribution	1,195,646	87,471
Principal Paid on Capital Debt	-	(76,000)
Interest Paid on Capital Debt	-	(6,441)
Net Cash Used in Capital and Related Financing Activities	(258,473)	(81,873)
Cash Flows from Investing Activities		
Interest Received	-	318
Net Cash Provided by Investing Activities	-	318
Net Increase (Decrease) in Cash and Cash Equivalents	162,680	(95,113)
Cash and Cash Equivalents, Beginning of Year	551,947	647,060
Cash and Cash Equivalents, End of Year	\$ 714,627	\$ 551,947

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, LOUISIANA
Statements of Cash Flows
Proprietary Fund
For the Years Ended December 31, 2010 and 2009

Statement I (Continued)

	2010	2009
Reconciliation of Operating Loss to Net Cash		
Provided by (Used in) Operating Activities		
Operating Loss	\$ (741,351)	\$ (782,101)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation	1,047,253	817,554
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Accounts Receivable	64,648	7,708
Deferred Charges	-	38,198
Increase (Decrease) in:		
Accounts Payable	15,219	(106,772)
Accrued Payroll Expenses	11,989	2,387
Customer Deposits	22,965	8,045
Net Cash Provided by (Used in) Operating Activities	\$ 420,723	\$ (14,981)
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ -	\$ 6,441

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Introduction

The City of Covington, Louisiana, (the City) adopted the Home Rule Charter on November 7, 1978, under the provisions of Article VI, Section 5, of the Louisiana Constitution of 1974. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation and utilities, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

The City has seven council members which serve four year terms ending in 2011. The council members are elected by majority vote. The municipality covers an approximately seven square mile area and has approximately 8,400 residents. The city has approximately 160 employees who encompass police, fire, public works and general administration employees. The Municipality operates a water department and a sewerage department.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The City holds the corporate powers of the organization.
- The City appoints a voting majority of the organization's board.
- The City is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the City.
- There is a fiscal dependency by the organization on the City.

Based on the aforementioned criteria, the City has no component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the City's proprietary fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. This fund is used to account for all financial transactions and resources except those that are required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal grants, licenses, permits, charges for service, and interest income.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

1982 Sales Tax Special Revenue Fund - The 1982 Sales Tax Special Revenue Fund is used to account for the proceeds of the 1982 sales tax. The 1% 1982 sales tax is used to retire the 1997 Sales Tax Refunding Bonds and the 2002 Sales Tax Bonds. Any proceeds remaining in the 1982 Sales Tax Fund on the last day of each month after satisfying all sinking and reserve fund requirements are dedicated as follows:

Capital Improvements	60%
Recreation Facilities and Equipment	15%
Street and Drainage Maintenance	10%
Central Business District Municipal Services and Capital Improvements	10%
Police Facilities and Equipment	5%

1957 Sales Tax Special Revenue Fund - The 1957 Sales Tax Special Revenue Fund is used to account for the receipt and use of proceeds of the City's 1957 1% sales and use tax. This tax is dedicated for the purpose of constructing, improving, extending and maintaining playgrounds and recreational facilities, public roads, streets, bridges and crossings, sewer, garbage disposal, waterworks, and other works of permanent public improvement in the City, title to which shall be in the public's name.

The City has one proprietary fund to account for the water, sewer, and garbage services it provides to the residents and businesses of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in-lieu-of taxes and other charges between the government's enterprise operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues for the City's proprietary fund consist of charges to customers and users of its water, sewer and garbage services. Operating expenses for the City's proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Prior to December 1st, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1st. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings are conducted at City Hall.
- C. Prior to the last meeting of the current fiscal year, the budget is legally enacted through passage of an ordinance.
- D. The Mayor may transfer part or all of any unencumbered appropriation balance among programs within a department, office or agency. An unencumbered appropriation balance may be transferred from one department, office, or agency to another only upon action of the City Council by ordinance.
- E. Formal budgetary integration is employed as a measurement control device during the year for the General Fund, Special Revenue Funds, Enterprise Fund, and the Debt Service Funds.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

- F. Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Debt Service Funds. Budgeted amounts are as originally adopted, or as amended by the City Council.
- G. Budgets are amended as necessary throughout the year.
- H. All unencumbered appropriations, except capital outlay, lapse at year end.

Deposits and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the municipality may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

Under state law, the municipality may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments are stated at fair value using published market quotes.

Property Taxes

Property taxes are due on December 31st and delinquent if not paid by January 1st. Property taxes are recorded as revenues when levied. Tax liens are filed on all unpaid bills. The City bills property taxes using the assessed values determined by the tax assessor of St. Tammany Parish. The St. Tammany Parish Sheriff collects property taxes and remits taxes to the City as collected. Total property tax revenue for the year ended December 31, 2010, was \$2,337,157 and is recorded in the funds as follows:

General Fund	\$ 1,857,933
Debt Service Fund	<u>479,224</u>
Total	<u>\$ 2,337,157</u>

Accumulated Unpaid Vacation Leave and Sick Pay

City employees are not allowed to carry over vacation time but are allowed to carry over sick time up to a maximum of 720 hours. Civil service employees of the City are allowed to accrue both vacation and sick time up to a maximum of 500 hours of each. Sick time is only paid out to employees if they retire or pass away while still employed. At termination, employees are paid for any accumulated annual leave. The amount of accumulated annual leave payable in the government-wide financial statements at December 31, 2010, is \$887,147.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Uncollectible amounts due for customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available that would indicate the uncollectibility of the particular receivable. The allowance is \$94,467 at December 31, 2010.

At December 31, 2010, the aging of utility receivables is as follows:

Current	\$	178,592
Over 1 under 30		13,989
Over 31 under 60		4,960
Over 61 under 90		2,175
Over 90		97,628
Less Allowance		<u>(94,737)</u>
Total	\$	<u>202,607</u>

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost, if historical costs are not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$2,500 or more for capitalizing capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide and proprietary fund financial statements, to the extent that the City's capitalization threshold is met. In accordance with GASB Statement No. 34, the City has elected to not capitalize infrastructure retroactively. Interest incurred during construction will be capitalized on a government-wide basis. Interest attributable to capitalized assets as of December 31, 2010, was immaterial to the financial statements. Depreciation is recorded on capital assets on a government-wide basis. Capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund basis and the government-wide basis.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Lives
Roads, Bridges, and Infrastructure	20 - 40 Years
Utility System	30 - 40 Years
Buildings and Building Improvements	20 - 40 Years
Furniture and Fixtures	5 - 10 Years
Vehicles	5 - 10 Years
Equipment	5 - 15 Years

Long-Term Obligations

In the government-wide and proprietary fund financial statements, debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Assets. In the governmental fund financial statements, however, debt principal payments of governmental funds are recognized as expenditures when paid.

Fund Equity

Government-Wide and Proprietary Fund Statements

Equity is classified as net assets and displayed in three components:

1. *Invested in capital assets, net of related debt* - Consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. *Restricted net assets* - Net assets with constraints placed on the use either by:
 - a. external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or
 - b. law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued)

Governmental Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balances are the portion of the governmental fund's net assets which is not available for appropriation.

Interfund Transactions

Permanent re-allocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrance Accounting

The City does not utilize encumbrance accounting.

Note 2. Stewardship, Compliance, and Accountability

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. The City was in compliance with the deposit and investment laws and regulations as of December 31, 2010.

Deficit Fund Balance

As of December 31, 2010, the 1957 Sales Tax Special Revenue fund had a deficit fund balance. The City plans in the coming year to decrease transfers from this fund to correct this deficit.

Compliance with Debt Covenants

As of December 31, 2010, the City was in compliance with all Sales Tax Revenue Bond Covenants.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 3. Cash and Cash Equivalents

The City's deposits are categorized as follows at December 31, 2010:

	Carrying Amount	Bank Balance
Demand Deposits	\$ 5,853,446	\$ 6,072,136
Certificates of Deposit	387,528	387,528
Total	\$ 6,240,974	\$ 6,459,664

These deposits are stated at cost, which approximates market.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$5,684,709 of the City's bank balance of \$6,459,664 was exposed to custodial credit risk. \$774,955 of deposits was secured by federal deposit insurance coverage, which was not exposed to custodial credit risk. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

Under state law, deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Note 4. Investments

Investments of \$3,991,777, which are stated at market using published market quotes at December 31, 2010, consist of shares in the Louisiana Asset Management Pool, Inc. (LAMP), a local government investment pool.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33:2955.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 4. Investments (Continued)

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk interest rate risk and foreign currency risk for all public entity investments.

LAMP is a money market like investment pool. The following facts are relevant for money market like investment pools:

- *Credit risk:* LAMP is rated AAAm by Standard & Poor's.
- *Custodial credit risk:* LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
- *Concentration of credit risk:* Pooled investments are excluded from the 5 percent disclosure requirement.
- *Interest rate risk:* Money market-like investment pools are excluded from this disclosure requirement, per paragraph 15 of the GASB 40 statement.
- *Foreign currency risk:* Not applicable to money market-like pools.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

If you have any questions, please feel free to contact the LAMP administrative office at 800-249-5267.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 5. Interfund Receivables/Payables

The primary purpose of interfund receivables/payables is to loan funds from the General Fund to individual funds to cover current expenditures. Individual fund balances due from/to other funds at December 31, 2010, are as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 450,584	\$ -
1982 Sales Tax Fund	20,000	
1957 Sales Tax Fund	-	-
Annex Area Sales Tax fund		20,000
Debt Service Fund		
General Obligation Bond		
Redemption Fund	-	24,623
Sales Tax Bond Fund	-	7,067
Proprietary Fund	18,849	
Capital Projects Fund		
LCDBG Capital Projects Fund	-	100
2007 Capital Projects Fund	-	437,643
Total	\$ 489,433	\$ 489,433

To the extent possible, cash is pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose funds are deposited in the pooled cash accounts has equity therein. An individual fund's equity in the pooled cash account is available upon demand and are considered to be "cash equivalents" when preparing these financial statements. Pooled cash at December 31, 2010, is as follows:

Fund	Equity in Pooled Cash	Pooled Cash In Other Funds
General Fund	\$ 2,835	\$ 5,618,407
Special Revenue		
A3 Sales Tax	1,641,316	-
1957 Sales Tax	-	2,835
1982 Sales Tax	3,259,393	-
Wilson Cemetery	826	-
Utility Fund		
Unrestricted	716,872	-
Total	\$ 5,621,242	\$ 5,621,242

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 6. Deferred Revenues

At December 31, 2010, the City has deferred revenues, a liability, as follows:

	General Fund
Business Licenses and Other Deferred Revenues	\$ 108,253
Sewer Assessments to be Collected	26,373
Paving Assessments to be Collected	<u>16,875</u>
Total	<u>\$ 151,501</u>

Note 7. Capital Assets

The following is a summary of the changes in capital assets for the fiscal year ended December 31, 2010:

Governmental Activities	Balance January 1, 2010	Increases	Decreases	Balance December 31, 2010
Capital Assets Not Depreciated				
Land	\$ 557,597	\$ 22,500	\$ -	\$ 580,097
Construction in Process	-	974,495	-	974,495
Total Capital Assets Not Depreciated	<u>557,597</u>	<u>996,995</u>	<u>-</u>	<u>1,554,592</u>
Capital Assets Being Depreciated				
Buildings	8,625,866	202,500	-	8,828,366
Improvements	4,611,117	100,496	(226,000)	4,485,613
Vehicles	2,725,476	418,995	(217,985)	2,926,486
Tools and Equipment	2,574,595	307,537	(94,994)	2,787,138
Leased Assets	96,650	-	(9,919)	86,731
Infrastructure	5,063,448	50,892	-	5,114,340
Total Capital Assets Being Depreciated	<u>23,697,152</u>	<u>1,080,420</u>	<u>(548,898)</u>	<u>24,228,674</u>
Less Accumulated Depreciation for:				
Buildings	(1,502,688)	(182,654)	-	(1,685,342)
Improvements	(1,612,967)	(141,584)	226,000	(1,528,551)
Vehicles	(1,508,502)	(291,571)	215,973	(1,584,100)
Tools and Equipment	(1,567,911)	(256,051)	94,994	(1,728,968)
Leased Assets	(66,399)	(18,999)	8,431	(76,967)
Infrastructure	(578,892)	(260,963)	-	(839,855)
Total Accumulated Depreciation	<u>(6,837,359)</u>	<u>(1,151,822)</u>	<u>545,398</u>	<u>(7,443,783)</u>
Total Capital Assets Being Depreciated, Net	<u>16,859,793</u>	<u>(71,402)</u>	<u>(3,500)</u>	<u>16,784,891</u>
Totals	<u>\$ 17,417,390</u>	<u>\$ 925,593</u>	<u>\$ (3,500)</u>	<u>\$ 18,339,483</u>

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 7. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General Government	\$ 92,991
Public Safety - Police	258,191
Public Safety - Fire	95,701
Public Works	311,085
Culture and Recreation	<u>393,854</u>
Total	<u>\$ 1,151,822</u>

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended December 31, 2010:

<u>Business-Type Activities</u>	<u>Balance January 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2010</u>
Capital Assets Not Depreciated				
Construction in Progress	\$ -	\$ 246,379	\$ -	\$ 246,379
Capital Assets Being Depreciated				
Sewer Plant and Lines	22,867,498	1,082,503	-	23,950,001
Water Wells, Tanks, and Lines	8,259,904	125,237	-	8,385,141
Total Capital Assets Being Depreciated	<u>31,127,402</u>	<u>1,207,740</u>	<u>-</u>	<u>32,335,142</u>
Less Accumulated Depreciation for:				
Sewer Plant and Lines	(5,954,798)	(702,025)	-	(6,656,823)
Water Wells, Tanks, and Lines	(2,614,461)	(345,228)	-	(2,959,689)
Total Accumulated Depreciation	<u>(8,569,259)</u>	<u>(1,047,253)</u>	<u>-</u>	<u>(9,616,512)</u>
Total Capital Assets Being Depreciated, Net	<u>22,558,143</u>	<u>160,486</u>	<u>-</u>	<u>22,718,630</u>
Totals	<u>\$ 22,558,143</u>	<u>\$ 406,865</u>	<u>\$ -</u>	<u>\$ 22,965,009</u>

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 8. Restricted Assets

Sales Tax Restricted Assets

An ordinance authorizing the issuance of a \$4,450,000 Sales Tax Bonds dated February 1, 2002, provides for certain restrictions on assets of the General Fund. The bond funding requirements provide that the issuer deposit the daily receipts of sales tax in a designated fund for the maintenance of the Sales Tax Revenue Bonds. The remainder of the balance of the revenues of tax shall constitute a dedicated fund of the Issuer from which appropriations and expenditures by the Issuer shall be made solely for the purposes designated in the proposition authorizing the levy of the tax. The 1982 Sales Tax Special Revenue Fund in Note 1 gives a description of how the remaining levy can be used.

General Obligation Bond Restricted Assets

An ordinance authorizing the issuance of a \$600,000 General Obligation Bonds dated January 20, 1995, an ordinance authorizing the issuance of a \$1,930,000 General Obligation Bonds dated January 1, 1996, and an ordinance authorizing the issuance of a \$1,240,000 General Obligation Bonds dated February 1, 2002, together provide for certain restrictions on assets of the General Fund. The bond funding requirements provide that upon receipt of the proceeds of the ad valorem tax, the Issuer has the responsibility for the deposit of such receipts in a debt service fund and such proceeds will be used to pay the principal and interest of the bonds' payments.

Garden of Pines

The ordinance calls for the establishment of a trust responsible for the general maintenance and care of the mausoleum. The original deposit of \$24,955 must be kept intact in an income earning trust and the income can be used to make disbursements of \$100 per month to the City for the care and maintenance of the mausoleum.

Capital Outlay

2007 Capital Projects Fund

The ordinance calls for the use of the 2007 General Obligation Bonds for the purpose of constructing, acquiring, improving and extending the City's sewers and sewerage disposal works, including necessary sites and furnishings.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 9. Pension Plan

Substantially all employees of the City are members of the following statewide retirement systems: Municipal Employees Retirement System of Louisiana, Municipal Police Employees Retirement System of Louisiana, and the Firefighters' Retirement System of Louisiana. These systems are cost-sharing multiple-employer, defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:

- A. Municipal Employees Retirement System of Louisiana (the System) - The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the municipality are members of Plan A.

Plan Description

All permanent employees working at least 35 hours per week who are not covered by another pension plan and are paid wholly or in part from municipal funds are eligible to participate in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of creditable service, or at any age with at least 25 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3% of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (225) 925-4810.

Funding Policy

Under Plan A, members are required by state statute to contribute 9.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 14.25% of annual covered payroll. Contributions to the System also include one-fourth of one percent (except in Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B proportionately on the salaries of the active members of each plan.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 9. Pension Plan (Continued)

A. Municipal Employees Retirement System of Louisiana (the System) (Continued)

Funding Policy (Continued)

The contribution requirements of plan members and the City are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City required contributions to the System under Plan A for the years ending December 31, 2010, 2009, and 2008, were \$582,234, \$579,037, and \$548,002, respectively, equal to the required contributions for each year.

B. Municipal Police Employees Retirement System of Louisiana (the Police System)

Plan Description

All full-time police department employees engaged in law enforcement are required to participate in the Police System. Employees who retire at 25 years at any age, or after age 50 with at least 20 years of creditable service or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3½% of their final-average salary for each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The Police System also provides death and disability benefits. Benefits are established by state statute.

The Police System issues an annual publicly available financial report that includes financial statements and required supplementary information for the Police System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 7722 Office Park Boulevard, Suite 200, Baton Rouge, Louisiana 70809-2250, or by calling (225) 929-7411.

Funding Policy

Members are required by state statute to contribute 7.5% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 25.00% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The City required contributions to the Police System for the years ending December 31, 2010, 2009, and 2008, were \$482,245, \$338,725, and \$294,023, respectively, equal to the required contributions for each year.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 9. Pension Plan (Continued)

C. Firefighters' Retirement System of Louisiana (the Firefighters' System)

All full-time fire department employees are members of the Firefighters' Retirement System. The Firefighters' System is a cost sharing, multiple-employer, non-qualified defined benefit pension plan covering firefighters employed by any municipality, parish, or fire protection district of the State of Louisiana, under the provisions of Louisiana Revised Statutes 11:2251-2269, effective January 1, 1990. The Firefighters' System is not a qualified plan as defined by the Internal Revenue Code, nor is it subject to the Employee Retirement Income Security Act of 1984.

Employees with 20 or more years of service who have attained age 50, or employees who have 12 years of service who have attained age 55, or 25 years of service at any age are entitled to annual pension benefits equal to 3% of their average final compensation based on the 36 consecutive months of highest pay multiplied by their total years of service, not to exceed 100%. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity.

If employees terminate before rendering 12 years of service, they forfeit the right to receive the portion of their accumulated Plan benefits attributable to their employer's contributions. Benefits are payable over the employees' lives in the form of a monthly annuity. Employees may elect an unreduced benefit or any of four options at retirement.

The Firefighters' System issues an annual publicly available financial report that includes financial statements and required supplementary information for the Firefighters' System. That report may be obtained by writing to the Firefighters' Retirement System, P.O. Box 94095, Capital Station, Baton Rouge, Louisiana 70804-9095, or by calling (225) 925-4060 or online at www.lafirefightersret.com.

Members are required by statute to contribute 8% of their covered compensation, and the City is required to contribute at an actuarially determined rate. The rate at December 31, 2010, was 21.50%. The City required contributions to the Firefighters' System for the years ending December 31, 2010, 2009, and 2008, were \$209,565, \$137,936, and \$94,940, respectively, equal to the required contributions for each year.

Note 10. Contingent Liabilities

The City is a defendant in several lawsuits, which are currently pending. The City persists in its vigorous defense of these lawsuits and maintains that the defenses available should shield the City from liability or, at a minimum, preclude the amount of damages sought by the plaintiffs. The majority of the cases are covered by insurance and, in the opinion of legal counsel for the City; the ultimate resolutions of these cases will not result in a significant liability to the City.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 10. Contingent Liabilities (Continued)

Two issues have been settled in 2009, resulting in the following liabilities:

- A. The St. Tammany Parish Sheriff's Office (the Sheriff) placed the City on notice on November 29, 2007, of a potential tax overpayment to the City of sales taxes by certain taxpayers in St. Tammany Parish. On March 3, 2009, the City and the Parish reached an agreement which would repay the Parish \$600,000 over the next three years in equal annual installments of \$200,000. The conclusion of this agreement resolves the matter and no further liability will be assessed. The schedule of payments to the Parish is as follows:

	Payment Dates	Annual Principal Payments
Contingent liability to the Parish payable in three annual installments of \$200,000 beginning March 3, 2009.	3/3/2011	\$ 200,000
Total		\$ 200,000

- B. The City settled a lawsuit, Brown v. City of Covington, on February 27, 2009. Beginning February 26, 2009, the City must make ten annual payments of \$30,000 resulting in a total payment of \$300,000. If the City is delinquent in any payments, it will be responsible for the entire obligation at that point and interest will accrue at 8% per day until the obligation is paid in full. The schedule of payments is as follows:

	Payment Dates	Annual Principal Payments	
Contingent liability as a result of settlement of the lawsuit Brown v. City of Covington, payable in annual installments of \$30,000 for ten years beginning on February 26, 2009.	2/26/2011	\$ 30,000	
	2/26/2012	30,000	
	2/26/2013	30,000	
	2/26/2014	30,000	
	2/26/2015	30,000	
	2/26/2016	30,000	
	2/26/2017	30,000	
	2/26/2018	30,000	
	Total		\$ 240,000

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 11. Long-Term Liabilities

The following is a summary of long-term liability transactions and total long-term liabilities of the City for the year ended December 31, 2010:

	Governmental			Total
	General Obligation Bonds	Community Disaster Loan	Sales Tax Revenue Bonds	
Bonds and Certificates Payable at January 1, 2010	\$ 6,675,000	\$ 1,800,900	\$ 3,205,000	\$ 11,680,900
Bonds Issued	-	-	-	-
Bonds Retired	(315,000)	-	(200,000)	(515,000)
Bonds and Certificates Payable at December 31, 2010	\$ 6,360,000	\$ 1,800,900	\$ 3,005,000	\$ 11,165,900

Bonds Retirement Schedule

Governmental Activities	Payment Dates	Years	Interest Rate	Annual Principal Payments
2002 General Obligation Bonds issued January 14, 2002, for \$1,240,000 secured by ad valorem taxes.	March 1 and September 1	2011	5.50	\$ 55,000
		2012	4.00	60,000
		2013	4.00	65,000
		2014	4.10	70,000
		2015	4.20	75,000
		2016	4.30	75,000
		2017	4.40	80,000
		2018	4.50	85,000
		2019	4.75	90,000
		2020	5.00	100,000
		2021	5.00	105,000
			<u>860,000</u>	

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 11. Long-Term Liabilities (Continued)

Bonds Retirement Schedule (Continued)

Governmental Activities	Payment Dates	Years	Interest Rate	Annual Principal Payments
2007 General Obligation Bonds issued January 16, 2007, for \$5,800,000 secured by ad valorem taxes.	March 1 and September 1	2011	5.00	215,000
		2012	5.00	225,000
	2013	5.00	235,000	
	2014	4.13	250,000	
	2015	4.13	260,000	
	2016	4.00	275,000	
	2017	3.88	285,000	
	2018	3.88	300,000	
	2019	3.90	315,000	
	2020	3.95	330,000	
	2021	4.00	345,000	
	2022	4.00	365,000	
	2023	4.00	380,000	
	2024	4.00	400,000	
	2025	4.00	420,000	
2026	4.00	440,000		
2027	4.00	460,000		
				<u>5,500,000</u>
Total Governmental General Obligation Bonds				<u>\$ 6,360,000</u>
Community Disaster Loan		2012		\$ 144,927
2006 Community Disaster Loan		2013		396,236
issued August 29, 2006, for		2014		407,846
\$1,800,900 secured by the		2015		419,796
revenues of the City.		2016		<u>432,095</u>
Total Community Disaster Loan				<u>\$ 1,800,900</u>

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 11. Long-Term Liabilities (Continued)

Bonds Retirement Schedule (Continued)

Governmental Activities	Payment Dates	Years	Interest Rate	Annual Principal Payments
2002 Sales Tax Revenue Bonds issued January 13, 2002, for \$4,450,000 secured by proceeds of the 1% 1982 sales and use tax.	May 1 and November 1	2011	4.50	\$ 210,000
		2012	4.30	220,000
		2013	4.40	235,000
		2014	4.45	245,000
		2015	4.50	255,000
		2016	4.55	270,000
		2017	4.60	285,000
		2018	4.70	295,000
		2019	4.75	315,000
		2020	4.80	330,000
		2021	4.85	<u>345,000</u>
Total Governmental Sales Tax Revenue Bonds				<u>\$ 3,005,000</u>

Total future principal and interest payments are as follows:

Year Ending December 31,	Governmental Activities				Total	
	General Obligation Bonds		Sales Tax Revenue Bonds		Principal	Interest
	Principal	Interest	Principal	Interest		
2011	\$ 270,000	\$ 258,429	\$ 210,000	\$ 138,423	\$ 480,000	\$ 396,852
2012	285,000	244,716	220,000	128,973	505,000	373,689
2013	300,000	230,716	235,000	119,513	535,000	350,229
2014	320,000	216,950	245,000	109,173	565,000	326,123
2015	335,000	203,421	255,000	98,270	590,000	301,691
2016 to 2020	1,935,000	794,954	1,495,000	302,813	3,430,000	1,097,767
2021 to 2025	2,015,000	381,025	345,000	16,733	2,360,000	397,758
2026 to 2027	900,000	36,400	-	-	900,000	36,400
Total	\$ 6,360,000	\$ 2,366,611	\$ 3,005,000	\$ 913,898	\$ 9,365,000	\$ 3,280,509

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 11. Long-Term Liabilities (Continued)

As of December 31, 2010, there is \$1,280,280 in reserved fund balances available in the Debt Service Funds to service the governmental activity bonds.

General obligation bonds are secured by an annual ad valorem tax levy. In accordance with Louisiana Revised Statute 39:562, the City is legally restricted from incurring long term bonded debt in excess of 35% of the assessed value of taxable property in the City. At December 31, 2010, the City had not exceeded this statutory limit.

Note 12. Interfund Transfers

Operating transfers between funds consist primarily of sales tax revenues transferred out of the 1957 and 1982 Sales Tax Funds to the particular funds for which, the sales tax revenue is to be used:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 4,892,379	\$ 30,000
1982 Sales Tax Fund	50,000	1,397,823
1957 Sales Tax Fund	-	3,494,556
Non-Major Governmental Funds		
Sales Tax Bond Fund	-	20,000
Total	<u>\$ 4,942,379</u>	<u>\$ 4,942,379</u>

Note 13. Reserved Fund Balances

The reserved fund balances as of December 31, 2010, are as follows:

Reserved for Debt Service

This reserve represents the amounts reserved for payment of principal and interest maturing in future years on bonded debt.

Reserved for Capital Outlay

This reserve represents amounts reserved for construction and purchase of capital assets.

Reserved for Perpetual Care

This reserve represents monies set aside for upkeep of the City's Mausoleum.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 14. FHA Revolving Loan Fund

In prior years, the City was awarded grant funds under the Rural Business Enterprise Grant (CFDA #10.424) for the purpose of making loans to area businesses at low interest rates to promote economic development. The grant funds were to form a revolving loan fund where notes would be collected and new loans would be made. The following is a recap of the activity of the revolving loan fund which is accounted for in the City's General Fund:

Cash Balance - January 1, 2010	\$ 130,674
Additions	
Principal Payments on Notes	16,006
Interest Payments on Notes	3,676
Interest on Cash Account	-
Payments from Other Funds	-
Reductions	
Loans to Other Funds	2,500
Bank Charges	-
Cash Balance - December 31, 2010	<u>\$ 147,856</u>
Notes Receivable Balance - December 31, 2010	<u>\$ 70,700</u>

Note 15. Prior Period Adjustment

During the preparation of the budget for the year ended December 31, 2010, management of the City determined that unused capital outlay money derived from 60% of the 1982 sales tax should be reported in the 1982 Special Revenue Fund instead of the General Fund. Accordingly, a prior period adjustment of \$2,836,255 has been recorded.

Note 16. Risk Management

The City has contracted with a commercial insurance company to provide liability coverage for general acts, law enforcement, and public officials' errors and omissions. The policy requires the City to pay for claims and costs up to \$25,000 with maximum aggregate payments limited to \$200,000. At December 31, 2010, other than those disclosed in Note 10, no significant claims were owed and no liability has been recorded.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 17. Post-Employment Benefits

Plan Description

The City of Covington's medical insurance benefit is provided to employees upon actual retirement.

The employer pays 75% of the medical coverage for the retiree only (not dependents). Employees are covered by the Municipal Employees Retirement System of Louisiana (MERS) whose retirement eligibility (D.R.O.P. entry) provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service. The eligibility provisions under the Municipal Police Employees Retirement System of Louisiana (MPRES) and the Firefighters' Retirement System of Louisiana (FRS) are as follows: 25 years of service at any age, age 50 and 20 years of service; or, age 55 and 12 years of service.

Contribution Rates

Employees do not contribute to their post-employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rate are contained in the official plan documents.

Funding Policy

Until 2008, the City recognized the cost of providing post-employment medical benefits (City of Covington's portion of the retiree medical premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In the year ended December 31, 2010, the City's portion of health care funding costs for retired employees totaled \$88,786.

Effective with the fiscal year beginning January 1, 2009, the City implemented GASB 45.

Annual Required Contribution

The City of Covington's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the normal cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43 and GASB 45) has been used for the post-employment benefits. The total ARC for the fiscal year ending December 31, 2010, is \$555,352 for medical, as set forth below:

	Medical
Normal Cost	\$ 293,058
30 - Year UAL Amortization Amount	<u>262,294</u>
Annual Required Contribution (ARC)	<u>\$ 555,352</u>

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 17. Post-Employment Benefits (Continued)

Net Post-Employment Benefit Obligation

The table below shows the City's Net Other Post-Employment Benefit (OPEB) Obligation for the year ended December 31, 2010:

	Medical
Beginning Net OPEB Obligation January 1, 2010	\$ 482,125
Annual Required Contribution	555,352
Interest on Net OPEB Obligation	-
ARC Adjustment	-
OPEB Cost	1,037,477
Contribution	-
Current Year Retiree Premium	<u>(88,777)</u>
Ending Net OPEB Obligation December 31, 2010	<u>\$ 948,700</u>

The following table shows City of Covington's annual post-employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded PEB liability:

Post- Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
Medical	December 31, 2010	\$ 555,352	16.0%	\$ 948,700

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 17. Post-Employment Benefits (Continued)

Funded Status and Funding Progress

In the fiscal year ending December 31, 2010, the City made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of January 1, 2009, the first and most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$4,535,628 for medical which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Unit Credit Cost Method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded during the fiscal year ended December 31, 2010, the entire Actuarial Accrued Liability of \$4,535,628 was unfunded.

	Medical
Actuarial Accrued Liability (AAL)	\$ 4,535,628
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 4,535,628</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	\$ 5,605,839
UAAL as a Percentage of Covered Payroll	80.9%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post-employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 17. Post-Employment Benefits (Continued)

Actuarial Cost Method

The ARC is determined using the Unit Credit Cost Method. The employer portion of the cost for retiree medical in each future year is determined by projecting the current cost levels using the health care cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality and turnover.

Actuarial Value of Plan Assets

Since this is the first actuarial valuation, there are not any assets. It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45, will be used.

Turnover Rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10.3%. The rates for each age are below:

Age	Percent Turnover
18 - 25	14.0%
26 - 40	12.0%
41 - 54	10.0%
55+	10.0%

Post-Employment Benefit Plan Eligibility Requirements

Although employees may retire at age 55 and 12 years of service, historically they have tended to wait until 30 years of service. To accommodate this historical tendency, we have assumed that actual retirement (and commencement of OPEB benefits) occurs at the earlier of 30 years of service or age 60 and 15 years of service. Medical benefits are provided to employees upon actual retirement. Entitlement to benefits continues through Medicare to death.

Investment Return Assumption (Discount Rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long-term return of a balanced and conservative investment portfolio under professional management.

CITY OF COVINGTON, LOUISIANA

Notes to Financial Statements

Note 17. Post-Employment Benefits (Continued)

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in *National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013*, released in January 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2009 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later.

Zero trend has been assumed for valuing life insurance.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans. Since GASB 45 requires the use of "unblended" rates, we have used the 94GAR mortality table described above to "unblend" the rates so as to reproduce the composite blended rate overall as the rate structure to calculate the actuarial valuation results for life insurance.

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The medical rates provided are "blended" rates for active and retired before Medicare eligibility, so we have estimated the "unblended" rates for retirees before Medicare as 130% of the "blended" rate, as required by GASB 45 for valuation purposes.

**REQUIRED SUPPLEMENTAL INFORMATION - (PART II)
BUDGETARY COMPARISON SCHEDULES**

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 1

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Revenues				
Taxes	\$ 2,511,520	\$ 2,511,520	\$ 2,521,173	\$ 9,653
Licenses and Permits	1,170,000	1,170,000	1,177,394	7,394
Other Revenues	34,000	47,500	235,349	187,849
Fines and Forfeitures	269,500	274,587	260,855	(13,732)
Interest and Penalties	84,500	84,500	62,595	(21,905)
Charges for Services	240,500	240,500	174,041	(66,459)
State Grants	18,805	161,771	182,609	20,838
Intergovernmental Revenues	155,000	155,000	160,538	5,538
Disaster Grants	-	447	111,516	111,069
Total Revenues	4,483,825	4,645,825	4,886,070	240,245
Expenditures				
Current				
General Government	3,469,655	3,713,361	3,161,747	551,614
Public Safety - Police	3,954,250	4,172,207	3,929,843	242,364
Public Safety - Fire	1,557,156	1,560,585	1,504,459	56,126
Public Works	1,656,500	1,697,122	1,509,689	187,433
Culture and Recreation	723,100	728,550	603,130	125,420
Total Expenditures	11,360,661	11,871,825	10,708,868	1,162,957
Deficiency of Revenues Over Expenditures	(6,876,836)	(7,226,000)	(5,822,798)	1,403,202
Other Financing Sources (Uses)				
Sale of Equipment	-	-	43,364	43,364
Transfers In	5,300,338	5,300,338	4,892,379	(407,959)
Transfers Out	(495,200)	(525,200)	(30,000)	495,200
Total Other Financing Sources	4,805,138	4,775,138	4,905,743	130,605
Change in Fund Balance	\$(2,071,698)	\$ (2,450,862)	(917,055)	\$ 1,533,807
Fund Balance, Beginning of Year			9,195,738	
Prior Period Adjustment			(2,836,255)	
Fund Balance, Beginning of Year, As Restated			6,359,483	
Fund Balance, End of Year			\$ 5,442,428	

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Taxes				
Ad Valorem	\$ 1,761,520	\$ 1,761,520	\$ 1,857,933	\$ 96,413
Franchise	750,000	750,000	663,240	(86,760)
Total Taxes	2,511,520	2,511,520	2,521,173	9,653
Licenses and Permits				
Insurance	650,000	650,000	657,728	7,728
Occupational	375,000	375,000	365,560	(9,440)
Building	120,000	120,000	129,025	9,025
Liquor and Beer	15,000	15,000	16,081	1,081
Chain Store	10,000	10,000	9,000	(1,000)
Total Licenses and Permits	1,170,000	1,170,000	1,177,394	7,394
Other Revenues				
Insurance Claim Revenue	-	-	1,047	1,047
Other Revenues	6,000	6,000	132,643	126,643
Donations	-	5,500	7,000	1,500
Ad Campaign	-	-	34,988	34,988
Rent Income	27,000	35,000	12,621	(22,379)
Impact Fees	-	-	46,000	46,000
Cemetery Plot Sale	1,000	1,000	1,050	50
Total Other Revenues	34,000	47,500	235,349	187,849
Fines and Forfeitures				
Court Fines	200,000	200,000	190,809	(9,191)
Fines and Forfeitures	-	5,087	5,236	149
DWI Fines	1,500	1,500	2,325	825
Parking Fines	6,000	6,000	5,540	(460)
City Court Fee	62,000	62,000	53,670	(8,330)
Mayor's Civil Court Violations	-	-	25	25
Court Costs - Litter Abatement	-	-	3,250	3,250
Total Fines and Forfeitures	269,500	274,587	260,855	(13,732)

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Interest and Penalties				
Interest on CDs	30,000	30,000	-	(30,000)
Interest on Bank Accounts	35,000	35,000	28,523	(6,477)
Interest on Trust	9,000	9,000	6,892	(2,108)
Interest on Ad Valorem Taxes	-	-	14,807	14,807
Penalties	10,000	10,000	1,379	(8,621)
Interest on Assessments	-	-	6,091	6,091
Interest on FHA Loans	-	-	3,676	3,676
Interest on Occupational Licenses	500	500	1,227	727
Total Interest and Penalties	84,500	84,500	62,595	(21,905)
Charges for Services				
Greater Covington Center Rentals	100,000	100,000	53,841	(46,159)
Greater Covington Center Leases	72,000	72,000	72,000	-
Recreation Registration	49,500	49,500	37,291	(12,209)
Zoning Revenue	15,000	15,000	8,259	(6,741)
Park Rental	4,000	4,000	-	(4,000)
Highway Maintenance - DOTD	-	-	2,650	2,650
Total Charges for Services	240,500	240,500	174,041	(66,459)
State Grants				
Other State Grants	-	142,966	182,609	39,643
DARE Grant	18,805	18,805	-	(18,805)
Total State Grants	18,805	161,771	182,609	20,838
Intergovernmental Revenues				
911 Revenue	33,000	33,000	36,067	3,067
Fire Insurance Premium Tax	30,000	30,000	34,941	4,941
School Resource Officer	47,000	47,000	42,376	(4,624)
District Court Witness Fees	-	-	2,100	2,100
Beer Tax	30,000	30,000	30,624	624
District 12 Dispatch	15,000	15,000	14,430	(570)
Total Intergovernmental Revenues	155,000	155,000	160,538	5,538
Disaster Grants	-	447	111,516	111,069
Total Revenues	\$ 4,483,825	\$ 4,645,825	\$ 4,886,070	\$ 240,245

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
General Government				
Administration				
Salaries	\$ 822,640	\$ 822,640	\$ 824,727	\$ (2,087)
Professional Services	538,500	597,665	600,535	(2,870)
Capital Outlay	-	34,974	13,199	21,775
Payroll Related Benefits and Taxes	410,975	410,975	387,478	23,497
Repairs and Maintenance	153,500	158,027	85,600	72,427
Insurance	213,200	213,200	76,803	136,397
Office Supplies	137,800	135,435	73,494	61,941
Contract Services	83,000	84,500	53,405	31,095
Service Charges and Fees	44,000	44,000	37,627	6,373
Utilities	28,000	28,000	28,970	(970)
Advertising	55,275	55,275	25,842	29,433
Training and Education	46,000	58,332	28,202	30,130
Material and Supplies	6,000	6,000	717	5,283
Meetings and Conventions	28,000	28,000	15,706	12,294
Dues and Subscriptions	16,000	16,000	11,159	4,841
Contract Labor	2,000	2,000	-	2,000
Gasoline	6,000	6,000	23,102	(17,102)
Bank Charges	1,000	1,000	57	943
Total Administration	2,591,890	2,702,023	2,286,623	415,400

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
General Government (Continued)				
Downtown Development Program				
Capital Outlay	-	82,000	45,655	36,345
Salaries	269,000	269,000	256,936	12,064
Payroll Related Benefits and Taxes	147,850	147,850	133,723	14,127
Contract Services	112,940	152,926	127,586	25,340
Utilities	81,950	81,950	82,423	(473)
Repairs and Maintenance	58,900	59,622	35,207	24,415
Professional Services	175	675	323	352
Insurance	87,500	87,500	85,595	1,905
Advertising	35,500	41,645	40,029	1,616
Office Supplies	22,500	22,500	16,033	6,467
Materials and Supplies	9,500	10,500	9,506	994
Contract Labor	23,800	27,020	23,773	3,247
Rent	8,000	8,000	-	8,000
Gasoline	6,200	6,200	7,977	(1,777)
Small Tools and Equipment	6,200	6,200	4,496	1,704
Dues and Subscriptions	1,750	1,750	1,709	41
Meetings and Conventions	2,000	2,000	1,309	691
Training and Education	4,000	4,000	2,844	1,156
Total Downtown Development Program	877,765	1,011,338	875,124	136,214
Total General Government	3,469,655	3,713,361	3,161,747	551,614

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Public Safety - Police				
Salaries	2,158,500	2,164,763	2,067,351	97,412
Payroll Related Taxes and Benefits	1,042,850	1,176,150	1,065,670	110,480
Capital Outlay	-	107,656	73,832	33,824
Materials and Supplies	131,000	139,023	120,682	18,341
Gasoline	100,000	100,000	141,434	(41,434)
Insurance	124,700	121,700	130,786	(9,086)
Repairs and Maintenance	82,000	97,161	93,028	4,133
Utilities	70,800	70,800	64,288	6,512
Office Supplies	48,500	42,500	34,737	7,763
Training and Education	60,000	45,652	43,426	2,226
Small Tools and Equipment	83,000	65,402	61,105	4,297
Professional Services	10,000	5,500	3,284	2,216
Rent	18,000	13,000	11,875	1,125
Contract Services	18,000	18,000	14,761	3,239
Dues and Subscriptions	5,500	3,500	3,300	200
Advertising	400	400	284	116
Contract Labor	1,000	1,000	-	1,000
Total Public Safety - Police	3,954,250	4,172,207	3,929,843	242,364
Public Safety - Fire				
Salaries	881,000	876,000	878,440	(2,440)
Payroll Related Taxes and Benefits	423,300	456,400	416,948	39,452
Capital Outlay	-	750	-	750
Utilities	42,056	42,056	36,982	5,074
Small Tools and Equipment	33,200	15,002	13,483	1,519
Insurance	41,000	41,000	37,538	3,462
Repairs and Maintenance	35,100	52,892	54,168	(1,276)
Gasoline	16,000	16,000	19,549	(3,549)
Contract Services	12,000	9,500	7,860	1,640
Rent	13,000	13,000	11,425	1,575
Office Supplies	18,500	10,752	10,068	684
Materials and Supplies	20,000	12,733	11,796	937
Training and Education	10,000	9,500	3,440	6,060
Dues and Subscriptions	4,000	2,500	1,960	540
Professional Services	8,000	2,500	802	1,698
Total Public Safety - Fire	1,557,156	1,560,585	1,504,459	56,126

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Public Works				
Capital Outlay	-	36,265	-	36,265
Salaries	636,000	636,000	595,558	40,442
Payroll Related Benefits and Taxes	386,400	386,400	322,597	63,803
Contract Labor	-	-	3,837	(3,837)
Professional Services	97,000	97,000	88,901	8,099
Utilities	152,900	152,900	137,070	15,830
Repairs and Maintenance	104,500	108,812	89,189	19,623
Materials and Supplies	126,000	126,045	103,274	22,771
Gasoline	55,000	55,000	57,059	(2,059)
Insurance	44,800	44,800	39,922	4,878
Office Supplies	21,000	21,000	22,464	(1,464)
Contract Services	18,400	18,400	18,684	(284)
Small Tools and Equipment	10,000	10,000	29,434	(19,434)
Dues and Subscriptions	1,000	1,000	594	406
Training and Education	2,000	2,000	518	1,482
Rent	1,500	1,500	588	912
Total Public Works	1,656,500	1,697,122	1,509,689	187,433

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2010

Schedule 2 (Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Culture and Recreation				
Capital Outlay	-	1,493	1,305	188
Salaries	320,000	320,000	282,181	37,819
Payroll Related Benefits and Taxes	128,600	128,600	107,719	20,881
Materials and Supplies	78,000	81,147	64,709	16,438
Utilities	36,000	43,300	43,675	(375)
Contract Labor	45,500	43,500	35,663	7,837
Professional Services	1,100	1,100	200	900
Repairs and Maintenance	31,000	24,422	19,879	4,543
Insurance	27,000	27,000	16,921	10,079
Gasoline	12,000	12,000	11,223	777
Contract Services	15,000	15,000	9,072	5,928
Office Supplies	13,600	13,688	4,601	9,087
Service Charges and Fees	5,300	7,300	2,861	4,439
Training and Education	3,000	3,000	280	2,720
Meetings and Conventions	2,500	2,500	-	2,500
Small Tools and Equipment	4,000	4,000	2,616	1,384
Rent	500	500	225	275
Total Culture and Recreation	723,100	728,550	603,130	125,420
Total Expenditures	\$11,360,661	\$11,871,825	\$10,708,868	\$ 1,162,957

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
1982 Sales Tax Fund - Special Revenue
For the Year Ended December 31, 2010

Schedule 3

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Revenues				
Taxes				
Sales and Use Tax	\$ 3,785,955	\$ 3,509,556	\$ 3,494,556	\$ (15,000)
Expenditures				
Capital Outlay				
General Government	262,300	670,300	184,756	485,544
Public Safety - Police	376,690	423,445	351,071	72,374
Public Safety - Fire	104,987	254,987	248,828	6,159
Public Works	481,000	992,000	416,742	575,258
Culture and Recreation	106,800	138,300	41,314	96,986
Water	118,100	382,100	69,461	312,639
Sewer	686,500	2,189,500	690,742	1,498,758
Total Expenditures	2,136,377	5,050,632	2,002,914	3,047,718
Excess (Deficiency) of Revenues Over Expenditures	1,649,578	(1,541,076)	1,491,642	3,032,718
Other Financing Uses				
Transfers In	-	50,000	50,000	-
Transfers Out	(1,514,383)	(1,514,383)	(1,397,823)	116,560
Total Other Financing Sources	(1,514,383)	(1,464,383)	(1,347,823)	116,560
Change in Fund Balance	\$ 135,195	\$ (3,005,459)	143,819	\$ 3,149,278
Fund Balance, Beginning of Year			60,189	
Prior Period Adjustment			2,836,255	
Fund Balance, Beginning of Year, As Restated			2,896,444	
Fund Balance, End of Year			\$ 3,040,263	

CITY OF COVINGTON, LOUISIANA
Budgetary Comparison Schedule
1957 Sales Tax Fund - Special Revenue
For the Year Ended December 31, 2010

Schedule 4

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable/ (Unfavorable)
Revenues				
Taxes				
Sales and Use Tax	<u>\$ 3,770,955</u>	<u>\$ 3,479,556</u>	<u>\$ 3,494,556</u>	<u>\$ 15,000</u>
Other Financing Uses				
Transfers Out	<u>(3,785,955)</u>	<u>(3,785,955)</u>	<u>(3,494,556)</u>	<u>291,399</u>
Change in Fund Balance	<u>\$ (15,000)</u>	<u>\$ (306,399)</u>	-	<u>\$ 306,399</u>
Fund Balance, Beginning of Year			<u>(2,812)</u>	
Fund Balance, End of Year			<u>\$ (2,812)</u>	

OTHER SUPPLEMENTAL INFORMATION

CITY OF COVINGTON, LOUISIANA
Combining Balance Sheet
Non-Major Governmental Funds
December 31, 2010

Other Supplemental Information
Schedule 5

	A3 Special Revenue		Capital Project Funds		Debt Service Funds		Garden of Pines		Total Non-Major Governmental Funds
	Fund	2007	Capital Project Fund	LCDBG Capital Projects Fund	General Obligation Fund	Sales Tax Bond Fund	Permanent Fund	Fund	
Assets									
Cash and Cash Equivalents	1,641,316	\$ 466,848	\$ 150	\$ 313,833	\$ 165,699	\$ 32,591	\$ 2,620,437		
Certificates of Deposit	-	-	-	-	362,573	24,955	387,528		
Receivables	-	-	-	469,191	-	-	469,191		
Taxes	-	-	-	-	674	-	674		
Accrued Interest	-	-	-	-	-	-	-		
Total Assets	\$ 1,641,316	\$ 466,848	\$ 150	\$ 783,024	\$ 528,946	\$ 57,546	\$ 3,477,830		
Liabilities									
Accounts Payable	\$ 769	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 769		
Due to Other Funds	20,000	437,643	100	24,623	7,067	-	489,433		
Total Liabilities	20,769	437,643	100	24,623	7,067	-	490,202		
Fund Balances									
Reserved for Capital Outlay	-	29,205	50	-	-	-	29,255		
Reserved for Debt Service	-	-	-	758,401	521,879	-	1,280,280		
Reserved for Perpetual Care	-	-	-	-	-	57,546	57,546		
Unreserved	1,620,547	-	-	-	-	-	1,620,547		
Total Fund Balances	1,620,547	29,205	50	758,401	521,879	57,546	2,987,628		
Total Liabilities and Fund Balances	\$ 1,641,316	\$ 466,848	\$ 150	\$ 783,024	\$ 528,946	\$ 57,546	\$ 3,477,830		

See independent auditor's report.

CITY OF COVINGTON, LOUISIANA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended December 31, 2010

Other Supplemental Information
Schedule 6

	A3 Special Revenue		Capital Projects Funds		Debt Service Funds		Garden of Pines Permanent Fund	Total Non-Major Governmental Funds
	Fund	2007	Capital Project Fund	LCDBG Capital Projects Fund	General Obligation Fund	Sales Tax Bond Fund		
Revenues								
Taxes								
Sales Taxes	\$ 1,340,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,340,384
Property Taxes	-	-	-	-	479,224	-	-	479,224
Interest Income	-	2,328	-	-	286	5,017	720	8,351
Total Revenues	1,340,384	2,328	-	-	479,510	5,017	720	1,827,959
Expenditures								
Current								
General Government	-	-	-	-	1,153	550	-	1,703
Public Works - Streets	830,750	-	-	-	-	-	-	830,750
Capital Outlay - Utility	-	435,443	-	-	-	-	-	435,443
Debt Service	-	-	-	-	315,000	200,000	-	515,000
Principal	-	-	-	-	275,084	147,423	-	422,507
Interest	-	-	-	-	-	-	-	-
Payments on Contingent Liabilities	200,000	-	-	-	-	-	-	200,000
Total Expenditures	1,030,750	435,443	-	-	591,237	347,973	-	2,405,403
Excess (Deficiency) of Revenues Over Expenditures	309,634	(433,115)	-	-	(111,727)	(342,956)	720	(577,444)
Other Financing Uses								
Transfers Out	(20,000)	-	-	-	-	-	-	(20,000)
Total Other Financing Uses	(20,000)	-	-	-	-	-	-	(20,000)
Changes in Fund Balances	289,634	(433,115)	-	-	(111,727)	(342,956)	720	(597,444)
Fund Balances, Beginning of Year	1,330,913	462,320	50	50	870,128	864,835	56,826	3,585,072
Fund Balances, End of Year	\$ 1,620,547	\$ 29,205	\$ 50	\$ 50	\$ 758,401	\$ 521,879	\$ 57,546	\$ 2,987,628

See independent auditor's report.

CITY OF COVINGTON, LOUISIANA
Schedule of Council Members
For the Year Ended December 31, 2010

Other Supplemental Information
Schedule 7

<u>Council Members</u>	<u>Term of Office</u>	<u>Compensation</u>
Martin J. "Marty" Benoit 523 West 17 th Avenue Covington, LA 70433 (985) 892-8064	June 30, 2011	\$ 9,000
Clarence Romage 706 Covington Point Drive Covington, LA 70433 (985) 893-2033	June 30, 2011	9,000
Frances R. Dunn 837 West 31 st Avenue Covington, LA 70433 (985) 893-6813	June 30, 2011	9,000
Matthew Faust 602 Phyllis Drive Covington, LA 70433 (985) 893-3740	June 30, 2011	9,000
Lee Alexius 400 S. New Hampshire Street Covington, LA 70433 (985) 892-6507	June 30, 2011	9,000
Mark K. Sacco 24 Michelle Drive Covington, LA 70433 (985) 237-9317	June 30, 2011	9,000
W. T. "Trey" Blackall, III 1006 South Filmore Street Covington, LA 70433 (985) 893-2809	June 30, 2011	9,000

See independent auditor's report.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Candace Watkins, Mayor
and Members of the City Council
City of Covington, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Louisiana, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 16, 2011.

This report is intended solely for the information and use of the City Council, management of the City of Covington, Louisiana, federal awarding agencies and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

June 16, 2011



MANAGEMENT LETTER

To the Honorable Candace Watkins, Mayor
and Members of the City Council
City of Covington, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Louisiana, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

During our audit we became aware of matters that may result in opportunities to increase operating efficiency. This letter summarizes our comments and suggestions concerning these matters.

2010 - 1 Utility Fund Losses

During our audit and testing of the utility fund, we noted that the fund had an operating loss of \$741,351. The City should consider raising its rates in order to reduce the amount of funds it must transfer from other funds in order for the utility fund to meet its obligations.

Management's Response: The City Council voted to raise utility rates in June, 2011. New rates will go into effect in September, 2011.

The City of Covington, Louisiana's response to the matters identified in our audit is described above. We did not audit the City of Covington, Louisiana's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management of the City of Covington, Louisiana, federal awarding agencies and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A Professional Accounting Corporation

June 16, 2011

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CITY OF COVINGTON, LOUISIANA
Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2009

2009 - 1 Utility Fund Losses

Status: This condition was resolved subsequent to December 31, 2010. See current year management letter 2010 -1.

2009 - 2 Credit Card Fraud

Status: This condition has been resolved